

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 SP-02 USIA-15 AID-05
EB-07 NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01
CEA-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 IGA-02 L-03 H-02
PRS-01 PA-02 FEAE-00 AGRE-00 /125 W
-----251717Z 041173 /41

R 251705Z MAY 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3159
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USDEL MTN GENEVA
USMISSION OECD PARIS
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

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PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 13958, MAY 11, 1977

1. SUMMARY

ALTHOUGH A 24-HOUR GENERAL STRIKE AND ROCKETING
UNEMPLOYMENT WERE THE MOST RECENT BITTER
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PILLS THE ECONOMY HAS HAD TO SWALLOW, THE GOF FOUND
SOME CAUSES FOR CONSOLATION IN THE GREAT PUBLIC
INTEREST IN THE GOVERNMENT BORROWING LAST MONDAY AND
IN THE GREATLY IMPROVED TRADE STATISTICS (SEE PARIS
14393). HOWEVER, THE ECONOMY STILL SHOWS NO SIGN
OF PICKING UP, AND, ACCORDING TO THE BOF, INDUSTRIAL
PRODUCTION MAY HAVE SLIGHTLY DECLINED AGAIN IN APRIL.

IT IS VERY MUCH A WAIT-AND-SEE ATTITUDE WITH VERY FEW WILLING TO STAKE ANY BETS REGARDING THE PROSPECTS FOR THE SECOND HALF OF THE YEAR.

2. STATE BORROWING MORE THAN FULLY SUBSCRIBED

SO GREAT WAS THE INTEREST IN THE GOVERNMENT BORROWING OF FF 6 BILLION WHICH WAS ISSUED ON MONDAY, MAY 23, THAT THE ISSUE HAD TO BE CLOSED AT 3 PM THE SAME DAY, AND IT WAS INCREASED TO FF 8 BILLION. IT APPEARS THAT PRIVATE INDIVIDUALS WERE THE NUMBER ONE SUBSCRIBERS TO THE BORROWING, ACCOUNTING FOR POSSIBLY MORE THAN THREE-QUARTERS OF THE AMOUNT OF THE ISSUE. SEVERAL FACTORS EXPLAIN THIS INTEREST. ALTHOUGH THE ISSUE CARRIES A RATE OF INTEREST OF ONLY 8.80 PERCENT, THE EXONERATION OF INCOME TAXES ON THE FIRST FF 1,000 OF REVENUE INCREASES THE EFFECTIVE INTEREST RATE ON A BOND OF FF 11,000-12,000 TO SLIGHTLY ABOVE 11 PERCENT. FURTHERMORE, THE PRINCIPAL, ALTHOUGH NOT THE COUPON, IS INDEXED ON THE EUROPEAN CURRENCY BASKET.

3. INDUSTRIAL PRODUCTION INCREASED SLIGHTLY IN MARCH

THE SEASONALLY ADJUSTED INDEX OF INDUSTRIAL PRODUCTION IN MARCH RETURNED TO ITS JANUARY LEVEL OF 129 AFTER A FALL TO 127 IN FEBRUARY. ON THE BASIS OF A THREE MONTH MOVING AVERAGE, INDUSTRIAL PRODUCTION FOR THE THREE MONTH PERIOD ENDING IN MARCH INCREASED BY 0.8 PERCENT WITH RESPECT TO THE THREE MONTH PERIOD ENDING IN UNCLASSIFIED

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FEBRUARY AND 2.4 PERCENT WITH RESPECT TO THE THREE MONTH PERIOD ENDING IN OCTOBER.

FRENCH INDUSTRIAL PRODUCTION

(THREE MONTH MOVING AVERAGES; SEASONALLY ADJUSTED, BASE 1970 100)

JAN. FEB. MAR.

TOTAL (EXCLUDING BUILDING & PUBLIC WORKS)	127	127	128
ENERGY	127	127	125
INTERMEDIATE GOODS	117	117	119
CONSUMER GOODS	140	139	140
CAPITAL GOODS	143	144	150

THE MONTHLY INDEX OF INDUSTRIAL PRODUCTION, EVEN WHEN

EXPRESSED AS A THREE MONTH MOVING AVERAGE, IS NOT AS
RELIABLE AS THE QUARTERLY INDEX AS AN INDICATOR OF THE
EVOLUTION OF INDUSTRIAL PRODUCTION. THE QUARTERLY
INDEX COVERS A BROADER RANGE OF INDUSTRIES THAN DOES THE

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INFO OCT-01 EA-09 IO-13 ISO-00 SP-02 USIA-15 AID-05
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CEA-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 IGA-02 L-03 H-02
PRS-01 PA-02 FEAE-00 AGRE-00 /125 W
-----251717Z 041282 /41

R 251705Z MAY 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3160
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USDEL MTN GENEVA
USMISSION OECD PARIS
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MONTHLY INDEX. THE DISCREPANCY BETWEEN THE TWO INDICES
IS MOST MARKED FOR THE CAPITAL GOODS SECTOR. UNFORTUN-
ATELY, THE QUARTERLY INDEX COMES OUT APPROXIMATELY ONE
AND A HALF QUARTERS AFTER THE
END OF THE QUARTER CONCERNED.

FRENCH INDUSTRIAL PRODUCTION IN 1976

(QUARTERLY INDEX; SEASONALLY ADJUSTED,

1970 100)

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TOTAL (EXCLUDING BUILD- ING AND PUBLIC WORKS)	123	123	125	124
ENERGY	119	114	121	121
INTERMEDIATE GOODS	113	116	120	116
CONSUMPTION GOODS	123	127	127	132
CAPITAL GOODS	141	138	135	133

4. BOF REPORTS A WEAKENING OF DOMESTIC DEMAND IN APRIL

THE BANK OF FRANCE REPORTS THAT THE SLIGHT INCREASE IN INDUSTRIAL PRODUCTION DURING MARCH DID NOT CONTINUE INTO APRIL. INSTEAD, PRODUCTION STABILIZED AND WAS POSSIBLY SOMEWHAT LOWER THAN THE MARCH LEVEL. ALTHOUGH THERE WAS A SUBSTANTIAL INCREASE IN FOREIGN DEMAND, IT WAS NOT SUFFICIENT TO OFFSET THE DECLINE IN DOMESTIC DEMAND. THE BOF ATTRIBUTES THIS DECLINE IN DOMESTIC DEMAND TO LARGER THAN NORMAL PURCHASES BY FRENCH CONSUMERS DURING EARLIER MONTHS IN ANTICIPATION OF PRICE INCREASES IN APRIL. AS A RESULT OF THE FALL OF TOTAL DEMAND, THE LEVEL OF BACK ORDERS AGAIN DECLINED. IN CERTAIN CASES MANUFACTURERS WERE LIMITING PRODUCTION IN ORDER TO PREVENT AN OVER-STOCKAGE OF FINISHED PRODUCTS. THE STOCKS OF FINISHED PRODUCTS IN THE CAPITAL GOODS SECTOR WERE PARTICULARLY HIGH AND IN THE CONSUMER GOODS SECTOR THEY WERE HIGHER THAN WOULD HAVE BEEN NORMAL DURING THIS PERIOD OF THE YEAR.

ALTHOUGH THE GENERAL BUSINESS CLIMATE WAS UNCERTAIN, COMPANY HEADS DID NOT EXPECT ANY MAJOR CHANGE IN ACTIVITY THROUGH THE VACATION PERIOD. THE STRONGER FOREIGN DEMAND, WHICH APPEARED DURABLE, COULD PARTIALLY SUPPLEMENT THE WEAKER DOMESTIC DEMAND WHICH A LARGE NUMBER OF COMPANY HEADS CON-

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SIDERED TO BE ONLY OF A TEMPORARY NATURE. IN THE INTERMEDIATE GOODS SECTOR BUSINESSMEN THOUGHT THAT THE PRESENT LEVEL OF ACTIVITY COULD BE MAINTAINED IF DOMESTIC DEMAND REGAINED SOME FIRMNESS. IN THE CAPITAL GOODS SECTOR, PROSPECTS WERE BECOMING MORE

AND MORE WORRISOME AS A RESULT OF THE VERY LOW LEVEL OF BACK ORDERS, WITH THE EXCEPTION OF THOSE FIRMS WHOSE PRODUCTION IS ASSURED BY ORDERS FROM THE GOVERNMENT AND PUBLIC ENTERPRISES. PRODUCTION IN THE CONSUMER SECTOR IN THE COMING MONTHS WAS UNCERTAIN BECAUSE RETAILERS APPEARED TO HAVE LARGE INVENTORIES WHICH, TAKING ACCOUNT OF THE LIKELY VERY MODERATE INCREASE IN HOUSEHOLD CONSUMPTION, WOULD NOT LEAD THEM TO PLACE LARGE ORDERS WITHIN THE NEAR FUTURE.

INDUSTRIALISTS CONTINUED TO BE VERY RESERVED REGARDING ANY NEAR-TERM INVESTMENT OR NEW HIRING AND SHOWED LITTLE REACTION TO THE RECENT STIMULUS MEASURES TAKEN BY THE GOVERNMENT IN THESE AREAS. A NUMBER OF THEM WERE QUITE WORRIED ABOUT PROSPECTS FOR THE AUTUMN. THEY BELIEVED THAT THERE WOULD BE A SUFFICIENT LEVEL OF GROWTH AND A REDUCTION OF UNEMPLOYMENT ONLY IF THERE WERE A REVIVAL OF DOMESTIC DEMAND.

5. SUPPLEMENTARY BUDGET PROVIDES FOR 11.8 BILLION DEFICIT

THE 1977 SUPPLEMENTARY BUDGET, CURRENTLY UNDER DISCUSSION AT THE NATIONAL ASSEMBLY, PROVIDES FOR A DEFICIT OF FF 11,810 MILLION. THIS ESTIMATE INCLUDES THE MEASURES ANNOUNCED BY BARRE IN APRIL TO AID THE ELDERLY, FAMILIES, EMPLOYMENT OF THE YOUNG, AND THE FINANCING OF NEW INVESTMENT. HOWEVER, IT DOES NOT TAKE INTO ACCOUNT THE EFFECT ON GOVERNMENT REVENUE OF A RECENT DECISION TO LIMIT THIS YEAR THE INCREASE

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IN THE "TAXE PROFESSIONNELLE" WHICH, ACCORDING TO PRELIMINARY ESTIMATES, MAY RESULT IN A NET INCREASE

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INFO OCT-01 EA-09 IO-13 ISO-00 SP-02 USIA-15 AID-05
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CEA-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 IGA-02 L-03 H-02
PRS-01 PA-02 FEAE-00 AGRE-00 /125 W
-----251719Z 041267 /42

R 251705Z MAY 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3161
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USDEL MTN GENEVA
USMISSION OECD PARIS
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IN THE DEFICIT OF FF 1,040 MILLION.

6. NUMBER OF UNEMPLOYED REGISTERS FURTHER STRONG
INCREASE IN APRIL

THE UNEMPLOYMENT SITUATION, THE MAJOR WEAK SPOT IN
THE ECONOMY, DETERIORATED EVEN FURTHER IN APRIL.
ALTHOUGH THE UNADJUSTED LEVEL OF UNEMPLOYMENT
DECREASED SLIGHTLY TO JUST BELOW THE MILLION MARK,
THE SEASONALLY ADJUSTED LEVEL WAS 1,039,400, A
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3.7 PERCENT INCREASE FROM MARCH. SEASONALLY ADJUSTED
UNFILLED JOB OFFERS DECLINED BY 4.5 PERCENT. WE
ESTIMATE SEASONALLY ADJUSTED UNEMPLOYMENT TO BE
5.0 PERCENT OF THE LABOR FORCE (SEE PARIS A-148
FOR METHODOLOGY).

LABOR MARKET INDICATORS

(SEASONALLY ADJUSTED; IN THOUSANDS
END OF MONTH)

NOV. DEC. JAN. FEB. MARCH APRIL

REGISTERED

UNEM-

PLOYED 931.4 929.9 944.7 972.4 1,002.5 1,039.4

UNFILLED

JOB

OFFERS 108.0 109.3 104.8 108.5 108.7 103.8

UNEMPLOY-

MENT AS

PERCENT OF

LABOR

FORCE 4.5 4.5 4.6 4.7 4.9 5.0

7. LARGE PRICE INCREASE REPORTED IN APRIL

ACCORDING TO PRELIMINARY PRESS REPORTS, THE INDEX OF RETAIL PRICES MAY HAVE INCREASED BY 1.2 PERCENT IN APRIL. SUCH A LARGE MONTHLY INCREASE WAS NOT UNEXPECTED. MOST PUBLIC SERVICE FEES AND CHARGES INCREASED BY 6.5 PERCENT ON THE FIRST OF APRIL. IN ADDITION, FOR A VERY LARGE NUMBER OF FIRMS, PRIMARY SERVICES, THE FIRST OF TWO PRICE INCREASES OF 2-3 UNCLASSIFIED

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PERCENT PERMITTED BY THE AGREEMENTS TO MODERATE PRICES TOOK PLACE IN APRIL. THUS, ONLY STARTING FROM MAY'S PRICE RESULTS WILL IT BE POSSIBLE TO ASCERTAIN WHETHER THE BARRE PLAN IS MAKING MUCH HEADWAY IN LIMITING THE RATE OF INFLATION.

8. SMALL DECREASE IN PRICES OF IMPORTED PRIMARY MATERIALS

AFTER SEVERAL MONTHS OF SHARP INCREASES IN THE INTERNATIONAL PRICES OF PRIMARY MATERIALS IMPORTED BY FRANCE, THIS INDEX FINALLY REGISTERED A DECREASE OF 1.3 PERCENT IN APRIL. PRICES WERE STILL 70 PERCENT ABOVE THE LEVEL OF A YEAR AGO. PRICES OF AGRICULTURAL PRIMARY MATERIALS INCREASED BY ONLY 0.2 PERCENT IN APRIL, WHILE THOSE OF INDUSTRIAL PRIMARY MATERIALS DECLINED BY 4 PERCENT.

9. FEBRUARY MONEY SUPPLY DATA

DATA ON COUNTERPARTS OF THE MONEY SUPPLY IN FEBRUARY ARE: NET FOREIGN EXCHANGE RESERVES, FF 43.2 (0.1 PERCENT INCREASE FROM JANUARY); CLAIMS ON THE PUBLIC SECTOR, FF 103.6 (0.2 PERCENT DECREASE); CLAIMS ON

THE PRIVATE SECTOR, FF 765.8 (0.1 PERCENT INCREASE).
OTHER MONEY SUPPLY DATA WERE REPORTED IN REFTEL.

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PRS-01 PA-02 FEAE-00 AGRE-00 /125 W
-----251716Z 041344 /41

R 251705Z MAY 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3162
INFO AMEMBASSY BONN
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USMISSION OECD PARIS
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AMCONSUL STRASBOURG

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10. OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS

PARIS
14017 - FRENCH ECONOMIC PROSPECTS
14051 - FINANCIAL ASSISTANCE FOR PORTUGAL
14247 - FRENCH TRADE BALANCE
14393 - FRENCH TRADE BALANCE
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14944 - FRENCH VALUE ADDED TAX ON ASCAP AND BMI

15138 - CASE - POCLAIN ACQUISITION BID

AIRGRAMS

PARIS

A-178 - ADMINISTRATIVE & FUNCTIONAL BUDGET OF THE
GOF FOR 1977

A-179 - FRENCH FOREIGN EXCHANGE HOLDINGS

A-180 - FRENCH RESERVES IN APRIL 1977

A-186 - FRENCH FOREIGN EXCHANGE HOLDINGS

A-187 - LOANS TO EXPORTING ENTERPRISES FOR NEW EQUIPMENT

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Message Attributes

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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
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Review Exemptions: n/a
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Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2373615
Secure: OPEN
Status: NATIVE
Subject: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
TAGS: EALR, EFIN, EGEN, FR
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/9254498a-c288-dd11-92da-001cc4696bcc
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